

**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

July 17, 2003



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Kenneth R. Witt, Leslie County Judge/Executive

Honorable John Morgan, Leslie County Sheriff

Members of the Leslie County Fiscal Court

The enclosed report prepared by Berger & Company, CPA, PSC, Certified Public Accountants, presents the Leslie County Sheriff's Settlement - 2001 Taxes as of July 17, 2003.

We engaged Berger & Company, CPA, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Company, CPA, PSC evaluated the Leslie County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES

July 17, 2003

Berger & Company, CPA, PSC has completed the audit of the Sheriff's Settlement - 2001 Taxes for Leslie County Sheriff as of July 17, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$237,394 for the districts for 2001 taxes, retaining commissions of \$9,819 to operate the Sheriff's office. The Sheriff distributed taxes of \$220,765 to the districts for 2001 Taxes. Taxes of \$7,547 are due to the districts from the Sheriff and refunds of \$737 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Collateral To Protect Deposits.
- The Sheriff Should Deposit Tax Collections Into Interest Bearing Accounts.
- The Sheriff Should Report And Pay Taxes On Or Before The Tenth Of Each Month.
- The Sheriff Should Collect All Amounts Due From Districts And Pay Amounts Due To Districts.

Deposits:

The Sheriff's deposits were not insured and collateralized by bank securities or bonds.

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To the People of Kentucky
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Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the Leslie County Sheriff's Settlement - 2001 Taxes as of July 17, 2003. This tax settlement is the responsibility of the Leslie County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Leslie County Sheriff's taxes charged, credited, and paid as of July 17, 2003, in conformity with the modified cash basis of accounting.

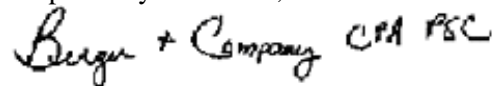
To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
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Honorable Kenneth R. Witt, Leslie County Judge/Executive
Honorable John Morgan, Leslie County Sheriff
Members of the Leslie County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 2, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Collateral To Protect Deposits
- The Sheriff Should Deposit Tax Collections Into Interest Bearing Accounts
- The Sheriff Should Report And Pay Taxes On Or Before The Tenth Of Each Month
- The Sheriff Should Collect All Amounts Due From Districts And Pay Amounts Due To Districts

Respectfully submitted,

A handwritten signature in black ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit fieldwork completed -
January 2, 2004

LESLIE COUNTY
JOHN MORGAN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

July 17, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 76,927	\$ 88,036	\$ 172,189	\$ 54,208
Tangible Personal Property	1,366	2,022	3,644	4,004
Intangible Personal Property				63
Fire Protection	1,197			
Franchise Corporation	7,054	8,427	18,015	
Additional Billings	13	15	29	9
Additional Bills - Unmined Coal	50	53	112	37
Unmined Coal	6,879	7,735	15,398	4,848
Oil and Gas Property Taxes	915	995	2,047	645
Penalties	3,516	3,841	7,772	2,235
Adjusted to Sheriff's Receipt	1,218	1,045	3,013	453
Gross Chargeable to Sheriff	<u>\$ 99,135</u>	<u>\$ 112,169</u>	<u>\$ 222,219</u>	<u>\$ 66,502</u>
<u>Credits</u>				
Exonerations	\$ 932	\$ 1,048	\$ 2,087	\$ 677
Delinquents:				
Real Estate	44,920	50,526	99,615	31,360
Tangible Personal Property	1,504	2,346	3,496	3,820
Intangible Personal Property				62
Oil and Gas	514	578	1,150	367
Unmined Coal	3,649	3,879	7,722	2,379
Total Credits	<u>\$ 51,519</u>	<u>\$ 58,377</u>	<u>\$ 114,070</u>	<u>\$ 38,665</u>
Taxes Collected	\$ 47,616	\$ 53,792	\$ 108,149	\$ 27,837
Less: Commissions *	<u>2,024</u>	<u>2,286</u>	<u>4,326</u>	<u>1,183</u>
Taxes Due	\$ 45,592	\$ 51,506	\$ 103,823	\$ 26,654
Taxes Paid	<u>45,228</u>	<u>51,219</u>	<u>102,451</u>	<u>21,867</u>
Due Districts or (Refund(s) Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 364</u>	<u>\$ 287</u>	<u>\$ 1,372</u>	<u>\$ 4,787</u>

* And ** See Page 4

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
JOHN MORGAN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES
July 17, 2003
(Continued)

* Commissions:

4.25% on	\$	129,245
4% on	\$	108,149

** Special Taxing Districts:

Library District	\$	199
Health District		(662)
Extension District		825
Soil Conservation		<u>(75)</u>
Due Districts or (Refund(s) Due Sheriff)	\$	<u><u>287</u></u>

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS

July 17, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of July 17, 2003 and April 23, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$148,037 and 154,318, respectively, of public funds uninsured and unsecured.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
July 17, 2003
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 10, 2003 through July 17, 2003.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2001. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 10, 2003 through July 17, 2003.

Note 4. Sheriff's 10% Add-On Fee

The Leslie County Sheriff collected \$18,653 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 7. Advertising Costs And Fees

The Leslie County Sheriff collected \$3,678 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). These will be used to operate the Sheriff's office. As of January 2, 2004, the Sheriff owes \$827 in advertising fees to his fee account.

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
JOHN MORGAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of July 17, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Collateral To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of July 17, 2003 and April 23, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$148,037 and 154,318, respectively, of public funds uninsured and unsecured. We recommend the Sheriff put procedures in place to assure the bank provides sufficient collateral for deposits.

Sheriff's Response: No response

The Sheriff Should Invest Moneys Into Interest-Bearing Accounts

The Sheriff deposited funds into a noninterest-bearing account. In accordance with KRS 66.480, the Sheriff should invest tax collections in an interest bearing account. Earnings on the tax collections should be distributed to his fee account and to the School district in accordance with KRS 134.140. We recommend the Sheriff deposit tax collections into an interest bearing account and distribute the related earnings to his fee account and the school district.

Sheriff's Response: No response

The Sheriff Should Report And Pay Taxes On Or Before The Tenth Of Each Month

In accordance with KRS 134.320, 134.300 and KRS 160.510, the Sheriff should, on or before the 10th of each month, report and pay to the depository of the State, County and other districts the amount of tax collected up to and including the last day of each month. During the 2001 tax collection period, payments were not made monthly. We recommend the Sheriff report and distribute tax collections at least monthly.

Sheriff's Response: No response

LESLIE COUNTY
JOHN MORGAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of July 17, 2003
(Continued)

The Sheriff Should Collect All Amounts Due From Districts And Pay Amounts Due To Districts.

The Sheriff should collect all amounts due from the taxing districts and pay all amounts due to the taxing districts based upon the audited settlement.

Sheriff's Response: No response

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

None.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable Kenneth R. Witt, Leslie County Judge/Executive
The Honorable John Morgan, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Leslie County Sheriff's Settlement - 2001 Taxes as of July 17, 2003, and have issued our report thereon dated January 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Leslie County Sheriff's Settlement - 2001 Taxes as of July 17, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Collateral To Protect Deposits.
- The Sheriff Should Deposit Tax Collections Into Interest Bearing Accounts.
- The Sheriff Should Report And Pay Taxes On Or Before The Tenth Of Each Month.
- The Sheriff Should Collect All Amounts Due From Districts And Pay Amounts Due To Districts.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leslie County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit fieldwork completed -
January 2, 2004

